

Message Text

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ACTION EUR-12

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FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
PA-02 L-03 H-02 NEA-10 /146 W
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 5568
TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY PARIS
AMEMBASSY ROME
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AMCONSUL BELFAST
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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD; TREASURY FOR
DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD APRIL 20 - 26

SUMMARY: STERLING CAME UNDER STRONG SELLING PRESSURE ON
FOREIGN EXCHANGES AND FINANCIAL MARKETS WERE NERVOUS.
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UNEMPLOYMENT FELL AGAIN IN THE MONTH TO MID-APRIL WHILE
PRELIMINARY INDICATIONS ARE THAT CONSUMER EXPENDITURE ROSE
SHARPLY IN THE FIRST QUARTER OF 1978. THE TUC IS PRESS-
ING THE GOVERNMENT TO CREATE A MONITORING SYSTEM FOR BOTH
INWARD AND OUTWARD CAPITAL FLOWS. END SUMMARY

1. UNEMPLOYMENT. UNEMPLOYMENT CONTINUED TO DECLINE IN

THE MONTH TO MID-APRIL. THE FOLLOWING TABLE SUMMARIZES
THE LATEST MONTHLY DATA:

UNITED KINGDOM

SEASONALLY ADJUSTED

EXCLUDING

	UNADJUSTED (MILLIONS)	PERCENT	SCHOOL LEAVERS (MILLIONS)	PERCENT
FEB.	1.5087	6.3	1.4090	5.9
MAR.	1.4610	6.1	1.4000	5.9
APR.	1.4518	6.1	1.3871	5.8

GREAT BRITAIN (1)

FEB.	1.4459	6.2	1.3502	5.8
MAR.	1.3990	6.0	1.3403	5.8
APR.	1.3875	5.9	1.3264	5.7

(1) - EXCLUDING NORTHERN IRELAND

THE APRIL FIGURES MARK THE SEVENTH SUCCESSIVE MONTHLY
DECLINE. THEY INDICATE A SEASONALLY ADJUSTED DROP OF
12,900 FROM THE MARCH TOTAL. SINCE PEAKING IN SEPTEMBER
1977, SEASONALLY ADJUSTED UNEMPLOYMENT HAS DECLINED BY
47,800. THIS SMALL (3.3PERCENT) DROP IN THE JOBLESS
TOTAL HAS TAKEN PLACE DURING A PERIOD OF VIRTUALLY UN-
CHANGED INDUSTRIAL PRODUCTION. THE IMPLICATIONS OF THIS
FOR GROWTH IN PRODUCTIVITY ARE OBVIOUS. GOVERNMENT EM-
PLOYMENT PROTECTION MEASURES OF VARIOUS KINDS ARE ALSO
CREDITED WITH KEEPING UNEMPLOYMENT SOME 300,000 LOWER THAN
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WOULD OTHERWISE HAVE BEEN THE CASE.

2. CONSUMER EXPENDITURE. CONSUMER EXPENDITURE ROSE SHARP
LY IN THE FIRST QUARTER OF 1978. THE INITIAL ESTIMATE IN-
DICATES AN INCREASE OF 1.3 PERCENT IN THE VOLUME OF CON-
SUMER EXPENDITURE. THE FOLLOWING TABLE INCLUDES THE MOST
RECENT QUARTERLY DATA. THE FIGURES ARE EXPRESSED IN CON-
STANT 1970 PRICES IN BILLIONS OF POUNDS.

PERCENT CHANGE FROM 12 MONTHS

EARLIER

1977 I	8.758	- 0.5
II	8.644	- 1.7
III	8.831	- 0.5
IV	8.800	- 0.3

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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
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FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 5569
TREASURY DEPT WASHDC PRIORITY
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1978 I (PRELIM.) 9.015 2.9
THE FIRST QUARTER DATA THUS FAR AVAILABLE INDICATES SUB-
STANTIAL INCREASES IN PURCHASES OF HOUSEHOLD DURABLES
AND MOTOR VEHICLES. THESE INCREASES WERE OFFSET TO SOME
EXTENT BY A DECLINE IN OUTLAYS ON FOOD. THE AVERAGE ER-
ROR IN THE ESTIMATE AT THIS STAGE IS PLUS OR MINUS 0.035
BILLION POUNDS. NEVERTHELESS, IT IS CLEAR THAT CONSUMER
EXPENDITURE HAS EXPERIENCED A SUBSTANTIAL RECOVERY SINCE
THE MIDDLE OF 1977. OVER THE MOST RECENT 6 MONTHS, IT
HAS RISEN AT AN ANNUAL RATE OF 5.0 PERCENT REACHING A
LEVEL IN THE FIRST QUARTER OF THIS YEAR NOT SEEN SINCE
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1974. THIS TREND IS LIKELY TO CONTINUE THROUGH 1978 AS
RISING REAL DISPOSABLE INCOMES ADD TO PURCHASING POWER.

3. THE PRIME MINISTER AND SENIOR CABINET MEMBERS WERE RE-
PORTED BY THE PRESS TO HAVE DISCUSSED A REQUEST FOR NEW

CAPITAL CONTROLS WITH TUC AND LABOUR PARTY LEADERS. THE REPORT SAID THAT THE UNIONS PRESENTED A PAPER WHICH ASKED THE GOVERNMENT TO CREATE A SYSTEM OF MONITORING BOTH INWARD AND OUTWARD CAPITAL FLOWS. THE PAPER WAS HIGHLY CRITICAL OF WHAT IS PERCEIVED TO BE HMTREASURY ATTITUDES TOWARD FOREIGN INVESTMENT, CONTENDING THAT INVESTMENT OVERSEAS HAD SUBSTANTIALLY DISPLACED DOMESTIC U.K. INVESTMENT AND HAD LED TO A LOSS OF EXPORTS AND JOBS IN CONSEQUENCE. THE PRESS SUGGESTED THAT THE GOVERNMENT DID NOT ACCEPT THE CRITICISM.

4. THE GILT MARKET TRADED NERVOUSLY THIS WEEK, REGISTERING OVERALL A MILD DECLINE. MARKET SOURCES POINT TO STERLING'S DIFFICULTIES, THE POSSIBILITY OF ADDITIONAL INCREASES IN THE MINIMUM LENDING RATE AND THE UNCERTAIN COURSE OF U.S. INTEREST RATES AS FACTORS WEAKENING THE MARKET. A NEW GILT, THE 12 PERCENT EXCHEQUER 1998, WAS ANNOUNCED LAST FRIDAY. THE 800 MILLION POUND ISSUE IS PRICED AT 98 POUNDS PER 100 POUNDS NOMINAL VALUE, IMPLYING A 12.542 PERCENT YIELD TO REDEMPTION. OF THE 98 POUNDS, 30 POUNDS IS PAYABLE ON THE APRIL 27 APPLICATION DATE, 35 POUNDS ON MAY 15 AND THE REMAINDER ON JUNE 7. ALTHOUGH THE NEW ISSUE APPEARED TO BE WELL PLACED IN THE YIELD CURVE WHEN IT WAS ANNOUNCED, THE WEEK'S MARKET RETREAT HAS LED SOME MARKET ANALYSTS TO DOUBT THAT THERE WILL BE HEAVY APPLICATIONS FOR IT THIS THURSDAY.

5.A.EXCHANGE MARKET DEVELOPMENTS. STERLING FELL STEADILY
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DURING THE WEEK ALTHOUGH, ACCORDING TO FOREIGN EXCHANGE DEALERS, FOR VARIOUS REASONS. STERLING, DURING THE PAST 5-6 WORKING DAYS WEAKENED FIRST AGAINST THE DOLLAR, THEN AGAINST CONTINENTAL CURRENCIES. DEALERS WERE HIGHLY INTERESTED IN THE U.S. TRADE FIGURES FOR MARCH, SOME DEALERS SAYING ANYTHING OVER A \$3 BILLION DEFICIT WOULD HAVE INCREASED PRESSURE ON THE DOLLAR. THE PAST WEEK HAS SEEN STERLING SOLD HEAVILY, LARGELY ON PROFESSIONAL ACTIVITY. THERE HAVE BEEN LARGE SALES ORDERS FROM THE CONTINENT, POSSIBLY MIDDLE EAST FUNDS, SOME OF WHICH HAVE BEEN GOING INTO FRENCH FRANCS.

B. ON THE POSITIVE SIDE, DEALERS CITE THE RECENT GILT SALES AND BANK OF ENGLAND SUPPORT FOR STERLING (ESTIMATES RANGE UP TO \$500 MILLION THIS WEEK) AS HAVING A BENEFICIAL IMPACT ON FUTURE MONEY SUPPLY FIGURES; OFFSETTING THIS IS THE IMPACT OF BUDGET TAX REBATES AND MATURING INTEREST PAYMENTS ON GILTS. THE IMPACT OF SPOT SUPPORT WILL BE A SHARP FALL IN RESERVES FOR APRIL, COMBINING THE COST OF INTERVENTION AND AN IMF REPAYMENT.

C. IN THE LONGER TERM, SOME DEALERS SEE A TREND OF

STERLING WEAKNESS UNTIL THERE IS A RESUMPTION OF GOOD
TRADE FIGURES. THERE IS SOME EXPECTATION OF AN INCREASE
IN INTEREST RATES DESIGNED MORE TO AID GILT SALES THAN TO
SUPPORT STERLING. THE UNDERLYING UNCERTAINTY IS SAID TO
BE INCREASINGLY OBVIOUS AND LINKED PARTLY TO PARLIAMENTAR
BUDGET CONSIDERATIONS. DEALERS EXPLAIN THIS RATIONALE
BY SAYING THAT IF THE POLITICAL OPPOSITION FORCES FURTHER
TAX CUTS IN THE FINANCE COMMITTEE, THE RESULT WILL BE
EITHER (A) AN INCREASED PUBLIC SECTOR BORROWING REQUIRE-
MENT OR (B) AN OFFSETTING INCREASE IN INDIRECT TAXES
THAT WOULD RAISE THE RETAIL PRICE LEVEL. NEITHER OF THOSE
ARE SEEN AS A FAVORABLE ALTERNATIVE. ANOTHER RELATED
POSSIBILITY, CITED BY DEALERS, IS THAT THE PRIME MINISTER
MIGHT CALL A SUMMER ELECTION IF HE IS UNABLE TO PUSH
THROUGH THE BUDGET IN THE SHAPE HE WISHES IT. WHILE THIS
IS SPECULATION, IT IS ALSO GENERATING UNCERTAINTY IN THE
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FOREIGN EXCHANGE MARKET.

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC PRIORITY 5570

TREASURY DEPT WASHDC PRIORITY

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6. EXCHANGE RATE AND GOLD

	EFFECTIVE EXCHANGE		GOLD
DATE	EXCHANGE RATE (\$)	(DEC. 1971 EQUALS 100)	(\$)
4/19	1.8440	61.6	174-3/8
4/20	1.8245	61.5	168-7/8
4/21	1.8260	61.6	171-1/8
4/24	1.8235	61.5	168-5/8
4/25	1.8150	61.2	167-7/8

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CHANGE 4/18-4/25 DOWN 0.0300 DOWN 0.5 DOWN 5-3/4

7. FORWARD PREMIUM ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/19	- 0.40	- 0.75	- 1.33
4/20	- 0.65	- 1.25	- 2.00
4/21	- 0.60	- 1.12	- 1.75
4/24	- 0.35	- 0.85	- 1.32
4/25	- 0.48	- 0.93	- 1.73

CHANGE 4/18-4/25 DOWN 0.08 DOWN 0.18 DOWN 0.43

(ALL FIGURES IN CENTS)

8. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
4/19	6-5/8	7-1/4	7-5/8
4/20	7-1/8	7-1/2	7-3/4
4/21	7-1/4	7-1/2	7-7/8
4/24	7-5/8	7-1/2	7-7/8
4/25	7-1/4	7-1/2	7-7/8

CHANGE 4/18-4/25 UP 1/4 UP 1/4 UP 1/4

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

DATE	
4/19	9/16
4/20	11/32
4/21	11/32
4/24	11/32

4/25 17/32
CHANGE 4/18-4/25 DOWN 11/32

10. STERLING CERTIFICATES OF DEPOSIT
DATE 1 MONTH 3 MONTHS 6 MONTHS
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4/19	7-7/16	7-7/8	8-1/16
4/20	7-9/16	7-25/32	8-3/32
4/21	7-17/32	7-25/32	8/5/32
4/24	7-11/32	7-3/4	8-3/16
4/25	7-9/32	7-29/32	8-5/16

CHANGE 4/18-4/25 DOWN 3/16 DOWN 1/16 DOWN 3/32

11. INTERPOLATED REDEMPTION YIELDS OF HIGH COUPON
GOVERNMENT SECURITIES

DATE	5 YEARS	15 YEARS	25 YEARS
4/19	10.81	12.51	12.66
4/20	10.93	12.57	12.73
4/21	10.96	12.64	12.78
4/24	10.83	12.55	12.79
4/25	10.95	12.64	12.93

CHANGE 4/18-4/25 UP 0.02 UP 0.06 UP 0.20

12. THE MINIMUM LENDING RATE (MLR) REMAINED 7-1/2 PERCENT FOLLOWING FRIDAY'S TREASURY BILL AUCTION, AS THE AVERAGE TREASURY BILL RATE FELL A MARGINAL 0.0015 PERCENT TO 6.9676 PERCENT. THERE WERE BIDS OF 603.87 MILLION POUNDS FOR THE 300 MILLION POUNDS IN BILLS TENDERED. THIS WEEK 500 MILLION POUNDS IN BILLS WILL BE OFFERED AS 300 MILLION POUNDS MATURE.

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